MINUTES
of the
SIXTH MEETING
of the
NEW MEXICO FINANCE AUTHORITY OVERSIGHT COMMITTEE

November 20-21, 2014
Room 321, State Capitol
Santa Fe

The sixth meeting of the New Mexico Finance Authority (NMFA) Oversight Committee was called to order by Representative Patricia A. Lundstrom, vice chair, on Thursday, November 20, 2014, at 9:35 a.m. in Room 321 of the State Capitol in Santa Fe.

Present
Rep. Patricia A. Lundstrom, Vice Chair
Rep. Alonzo Baldonado
Rep. Ernest H. Chavez
Sen. Lee S. Cotter
Rep. Roberto "Bobby" J. Gonzales
Sen. Ron Griggs
Rep. Jimmie C. Hall
Rep. Dona G. Irwin
Rep. Jane E. Powdrell-Culbert
Rep. Debbie A. Rodella (11/20)
Sen. Nancy Rodriguez

Absent
Sen. Joseph Cervantes, Chair
Rep. Candy Spence Ezzell
Sen. Phil A. Griego
Rep. Yvette Herrell
Sen. Michael Padilla
Sen. John C. Ryan
Rep. Henry Kiki Saavedra
Rep. James P. White

Advisory Members
Sen. Sue Wilson Beffort (11/20)
Sen. Jacob R. Candelaria
Rep. Sharon Clahchischilliage
Rep. Anna M. Crook
Rep. Kelly K. Fajardo
Rep. Mary Helen Garcia
Sen. Mary Kay Papen (11/20)
Sen. John Pinto (11/20)
Rep. Sheryl Williams Stapleton (11/20)
Rep. Monica Youngblood
Rep. Brian F. Egolf, Jr.
Sen. Stuart Ingle
Rep. Emily Kane
Sen. Timothy M. Keller
Rep. W. Ken Martinez
Sen. George K. Munoz
Sen. Bill B. O'Neill
Sen. William H. Payne
Sen. Clemente Sanchez
Rep. Edward C. Sandoval
Rep. James R.J. Strickler
Rep. Thomas C. Taylor

(Attendance dates are noted for members not present for the entire meeting.)

Minutes Approval

Because the committee will not meet again this year, the minutes for this meeting have not been officially approved by the committee.

Staff

Lisa Sullivan, Staff Attorney, Legislative Council Service (LCS)
Tessa Ryan, Staff Attorney, LCS
Amy Chavez-Romero, Assistant Director for Drafting Services, LCS

Guests

The guest list is in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file.

<u>Thursday, November 20</u>

Representative Lundstrom welcomed all present and announced that Representative Garcia would help chair the meeting.

New Mexico Renewable Energy Transmission Authority (NMRETA) Report — Budget and Programs

Jeremy Turner, executive director, NMRETA, provided the committee with an overview of existing and new projects under review by the NMRETA and the NMRETA's budget. He stated that in the past six to eight months, an interest in renewable energy has been prevalent. He first described the High Lonesome Mesa wind farm project. He explained that bonds for the project were issued in 2005 and that $36.5 million in debt remains outstanding. Mr. Turner stated that the project has outperformed revenues modeled for the project.

Mr. Turner next described a project involving the Western Spirit clean line, which is a joint development between Clean Line Energy and the NMRETA. The NMRETA will own the project and lease it back to Clean Line Energy. Mr. Turner noted that this project is the first instance in which the NMRETA will act as a project owner. He stated that the NMRETA is currently working on acquisition of rights of way with three pueblos. The project would include construction of 200 miles of new line and will cost approximately $350 million. A service date of 2018 is planned. The NMRETA expects to obtain $2 million in lease payments from the project for 20 years.

Mr. Turner also described a project involving a memorandum of understanding between Lucky Corridor, LLC, and the NMRETA. The project would provide 700 megawatts of capacity and would run 130 miles across northern New Mexico.

Mr. Turner additionally described the Wheatland project involving Blue Mesa Energy. The project would involve a 150-megawatt development affecting 40,000 acres of land. The project would be located adjacent to the Cap Rock wind project and has a prospective transmission intertie located within the optioned boundaries.

Mr. Turner next described the SunZia transmission project, involving a transmission line from New Mexico to Arizona. He indicated that SunZia applied to the NMRETA for a memorandum of understanding and that the NMRETA will recommend it to its board in December. He stated that SunZia has reached an agreement with the federal Department of Defense with respect to portions of the project affecting White Sands Missile Range.

Mr. Turner described other projects for which no agreements have yet been reached between the project proponents and the NMRETA. Those projects include the proposed Southline project in southern New Mexico and the Tres Amigas project located near Clovis. Mr. Turner noted that the NMRETA is in support of the Tres Amigas project, but the project faces regulatory issues.

Next, Mr. Turner described the goals of the NMRETA for 2015. Those goals include: signing a memorandum of understanding with SunZia; keeping the military informed of new projects; completing a 2014 audit without findings; and continuing existing partnerships with Lucky Corridor, LLC, Blue Mesa Energy and Western Spirit.

Mr. Turner indicated that the NMRETA will make a request for a special appropriation of \$350,000 in the 2015 legislative session, with the goal of becoming self-sufficient in 2018. From 2007 to 2009, the NMRETA received \$2 million in legislative appropriations. In 2010 through 2012, no appropriations requests were made since the NMRETA continued its operations with prior appropriations and project funds received from private sources. Mr. Turner presented the committee with a chart summarizing the sources of the NMRETA's private source funding from fiscal years (FY) 2010 through 2014 and the amounts budgeted for FY 2015. He also presented the committee with a table containing the NMRETA's operating cash flow budget for FY 2015 and FY 2016.

Committee members asked Mr. Turner about the number of jobs that could be created from the projects he described during his presentation to the committee. Mr. Turner indicated that approximately 200 construction workers were hired to build the High Lonesome Mesa wind farm and that seven permanent positions have been created to maintain operation of the wind farm. He noted that the average salary for a permanent job is approximately \$65,000 per year in an area where the average income is about \$32,000 per year. In response to a question from a committee member, Mr. Turner indicated that not all of the 120 jobs expected to be created from the Western Spirit clean line are projected to include New Mexico-based jobs. He stated that the Bureau of Business and Economic Research at the University of New Mexico has been requested to conduct an analysis of job creation related to similar projects. Mr. Turner indicated that 60 to 70 permanent jobs could be created from the Lucky Corridor project and that 10 jobs could be created from the Wheatland project. He stated that nine permanent jobs could be created from the transmission line associated with the SunZia project, but up to 100 jobs could be spread throughout the project development. He estimated that 60 to 70 of those jobs could be based in New Mexico.

A committee member additionally asked about the location of the transmission line proposed by Lucky Corridor, LLC. Mr. Turner stated that the project is intended to use existing infrastructure in northern New Mexico and build 130 miles of transmission line. The committee member additionally inquired about any agreements that are required to be obtained from Public Service Company of New Mexico permitting use of its transmission line to be used by another entity. Mr. Turner explained that the Federal Energy Regulatory Commission has issued an order requiring a utility to allow use of its system if the other party pays a service fee and costs and meets other conditions.

Committee members also asked about the location of the Southline project, including its location near any federal air force bases. Committee members encouraged the NMRETA to send letters to representatives from White Sands Missile Range, Holloman Air Force Base and other air force bases affected by Southline or other projects.

Committee members expressed concern about the costs of obtaining rights of way for renewable energy projects. Mr. Turner indicated that some project developers have explored financing for obtaining rights of way and that inquiries have been made about the NMRETA's eminent domain authority. He stated that the NMRETA hopes to avoid use of that authority.

A committee member asked about the NMRETA's progress in achieving self-sufficiency through project revenues. Mr. Turner indicated that significant progress has been achieved in its projects and that it expects to become self-sufficient.

Approval of Minutes

Upon a motion made and seconded, the minutes of the September meeting of the NMFA Oversight Committee were approved, as amended. Upon a motion made and seconded, the minutes of the October meeting were approved.

Tax Increment Development Districts (TIDDs)

Ryan Gleason, tax policy and research director, Taxation and Revenue Department (TRD), provided the committee with a primer on TIDDs. He explained that the TIDD mechanism was created through the Tax Increment for Development Act. The statutory purpose is to provide for "gross receipts tax financing and property tax financing for public infrastructure for the purpose of supporting economic development and job creation".

Mr. Gleason explained the formation of a TIDD. First, a governing body approves a tax increment development plan. The approved plan is then filed with the county clerk and a petition with signatures of at least 50 percent of the property owners within the proposed TIDD is submitted. At that point, the appropriate governing body may adopt a resolution of intent to form a TIDD. Mr. Gleason noted that certain petitioners may enter into an agreement with the governing body about improvement of specific property and that the petitioners may be required to prepare a feasibility study and to bear the cost of the study. A public hearing after adoption of the resolution is held, and at that point, a governing body may adopt a resolution forming the TIDD and set an election, unless the election has been waived. An election is then held and, if successful, required parties are notified.

Mr. Gleason stated that a TIDD is governed by a five-member board appointed by the appropriate governing body and the secretary of finance and administration. At the end of an appointed member's term, that member's replacement is determined through an election by a majority vote of owners and qualified resident owners.

Mr. Gleason explained how tax increments are determined pursuant to the Tax Increment for Development Act. He stated that a taxing entity can dedicate up to 75 percent of its gross receipts tax increment. The increment is measured against a baseline, which is estimated by the appropriate local government, in consultation with the TRD, for the prior calendar year. Mr. Gleason noted that the TRD reviews gross receipts data and accounts for gross receipts anomalies, such as construction spikes, in the determination of the baseline.

Next, Mr. Gleason described the process for issuance of gross receipts tax increment bonds. He explained that a TIDD first adopts a resolution to authorize the issuance of gross receipts tax increment bonds. He stated that the NMFA is next required to review a proposed issuance of bonds issued against the state's share of the gross receipts tax. The NMFA must determine whether the bonds will be used in accordance with the tax increment development plan. If the NMFA determines that the bonds will be used in accordance with the tax increment development plan, the legislature may authorize the issuance of the bonds. If that authorization is obtained, the TIDD adopts a resolution to authorize the issuance of the bonds. Upon a question from a committee member, David Buchholtz, bond attorney, noted that only Mesa del Sol has used sponge bonds to finance a TIDD project. An entity might use sponge bonds to translate a spike in gross receipts taxes into debt service.

Mr. Gleason noted that while baseline gross receipts tax calculations for an undeveloped TIDD are relatively straightforward, such calculations for developed TIDDs can be relatively complicated. He also added that for a TIDD to get the benefit of gross receipts tax collections in the determination of its baseline, taxpayers must use correct location codes. He clarified that tax rates are not affected by a taxpayer's location within a TIDD. Mr. Gleason then presented the committee with maps showing the locations of existing TIDDs in New Mexico, in addition to information sheets showing the effective dates of the formation of the TIDDs and the tax dedications and bond issuances associated with the TIDDs.

A committee member asked whether the TIDDs have achieved their economic development goals and sought clarification on the history of the Winrock TIDD, which Mr.

Buchholtz, an attorney whose firm represents clients with TIDD-related interests and who was in the audience, helped to provide. Mr. Gleason indicated that results have been mixed. He indicated that the Winrock TIDD, for instance, might be particularly well-positioned to achieve such goals, especially if the option to adjust revenue streams through a recently enacted mechanism is exercised. Rick Martinez, director of business development, NMFA, said that the NMFA staff would prepare a report on TIDDs for the committee.

Committee members sought clarification on the history of other TIDD projects, including Upper Petroglyphs and Mesa del Sol. Mr. Gleason responded that the developer of Upper Petroglyphs, SunCal, achieved the first phase of TIDD formation but failed to get legislative approval for a state gross receipts tax dedication. Mr. Buchholtz added that after not securing that approval, the recession began, the company went bankrupt and the land was foreclosed upon; but there has been some discussion about reactivating that TIDD. He also said that Mesa del Sol was formed using two mechanisms: the TIDD and the public improvement district. Mr. Gleason said that he would provide the committee with a fact sheet on Mesa del Sol.

Spaceport Authority (SA) Update

Christine Anderson, executive director, SA, introduced Richard Holdridge, SA board chair, and noted that other SA board members, including Mr. Buchholtz, were present in the audience. Mr. Holdridge provided a brief summary of his involvement with the SA, which dates to the time of its inception, and commented that the SA is striving to diversify its customer base while ensuring that it is ready for spaceflights by Virgin Galactic (VG), the spaceport's anchor tenant. In response to a query about the profile of the board, Mr. Holdridge told of his experience in the military working on space projects and mentioned that others on the board have experience in astronautics, bonding and accounting. He characterized the board as diverse and active. Mr. Buchholtz described himself as a bond lawyer who represents governments and private-sector entities. Mr. Buchholtz offered that he has been a board member since 2011 and brings expertise in finance and government matters.

Ms. Anderson focused her presentation on the SA's business plan and model, which include aerospace, events and tourism sectors; capital outlay request; and operating budget. She noted that the business plan, which is available on the SA web site and which covers the period between 2013 and 2018, emphasizes diversification of business sector and customer base. Ms. Anderson highlighted some of the activity that has occurred in each of the sectors and stressed that, given the SA's goal to become self-sustaining, such diversification has been sought since the SA's creation. Ms. Anderson discussed a proposal — the result of an evaluation of what would be needed to attract new customers — for a capital outlay appropriation of $4.5 million to build a 25,000-square-foot hangar. She closed with an update on the SA's budget request, which was adjusted based in large measure on the realization that VG would not conduct flights in FY 2015 or 2016. The current SA budget request includes a special appropriation of approximately $1.78 million to make up for projected shortfalls, and that, she said, would be used only to the extent needed.

Committee members responded by asking for clarification on aspects of the presentation and expressing their concerns about the SA's progress and the prolonged delays in the SA's achievement of self-sufficiency, particularly given the decline in anticipated "new" state revenue and the SA's heavy reliance on state money. Some members discussed their concerns about the southern road and whether it will be sufficiently durable; in response, Ms. Anderson noted that road development is in phase one of three, that the Bureau of Land Management is conducting an environmental assessment, that Dona Ana County continues to work on design, that additional funding sources are being sought and that planners hope to begin construction in June.

Members expressed additional concerns. A member commented on the perceived unfairness in the balance between costs incurred by and benefits afforded to Dona Ana and Sierra counties, given that Dona Ana County appears to be shouldering much of the burden for supporting the spaceport and that the visitors center is planned to be built in Sierra County. Some members were critical of the capital outlay request, saying that too little detail was provided. A member questioned the propriety of use of the excess pledged gross receipts tax revenues. Ms. Anderson responded that, in the past two years, the boards involved in determining the use of excess revenues dedicated these revenues to operations; she said that they would be dedicated to construction and infrastructure in FY 2016.

Members voiced criticisms of the SA and the presentation. Some highlighted the SA's failure to develop and present a plan, based on sound business principles, that makes the spaceport competitive and a worthy state investment; they questioned whether what was presented could be considered acceptable in any business context and whether it would be advantageous for the state to privatize the venture. A member criticized the presentation for its overreliance on pictures and its sparse detail, particularly with respect to the special appropriation request. A member recommended that the SA coordinate more closely with the Economic Development Department and expressed an expectation that more evidence of the spaceport's strength relative to its competition be made available during the legislative session.

The presenters responded to the committee's reactions. Ms. Anderson indicated that the SA plans to actively seek new tenants and customers, expand spaceport events and complete planned tourist sites. Mr. Holdridge said that the committee would receive more detail about the special appropriation and that, in his understanding, the previous presentation to the committee was intended to cover in greater detail the plan and budget and that this presentation was intended as an update in light of the setback caused by VG's recent test-flight accident. Mr. Buchholtz expressed that he takes seriously the committee's comments and that he would relay them to the board at the meeting that it had scheduled upon learning of the accident. He added that the board has confidence in Ms. Anderson, who has faced many challenges in her role as executive director.

Statewide Economic Development Finance Act (SWEDFA)

Marquita Russel, chief of programs, NMFA, and John Brooks, director of commercial lending, NMFA, gave an update on the Economic Development Revolving Fund (EDRF). The

SWEDFA, through which the fund was created, was enacted in 2003 to create a financing tool, consisting of two loan-participation programs, for for-profit and nonprofit businesses. The programs are the Smart Money Loan Participation Program (SMLPP), in which the NMFA shares a collateral interest equal to that of the bank involved, and to which an initial $5.1 million appropriation was made, and the Collateral Support Participation Program (CSPP), in which the NMFA has a subordinated collateral interest and to which the federal government contributed $13.2 million. Money in the EDRF supports these programs. The programs offer participants a low-cost borrowing rate and efficiency in the loan process. Ms. Russel and Mr. Brooks reviewed some SMLPP and CSPP projects, noting that, while some assets in the SMLPP are troubled, several loans made through the CSPP have been repaid.

NMFA Board Report

Robert Coalter, chief executive officer, NMFA, presented a report on the recent activity of the NMFA board. He first provided the committee members with an overview of the recent loan activity at the NMFA. He stated that 10 loans were closed during October 2014, with six loans funded through the Public Project Revolving Fund (PPRF); one loan funded through the State Small Business Credit Initiative Program; two loans funded from funds for drinking water; and one loan funded from the Colonias Infrastructure Project Fund. Mr. Coalter additionally indicated that eight grants totaling $322,000 were closed for the Local Government Planning Grant Program. Mr. Coalter additionally stated that the NMFA's internal auditor contract is complete and work with respect to that contract is expected to begin this month.

Mr. Coalter provided the committee members with financial information for the NMFA, including its net position statement, dated October 31, 2014, and its statement of revenues and expenditures for the month ending October 31, 2014. He highlighted that the net position statement reflects an increase in cash relative to the previous year, due to bond reimbursement and loan activity. With respect to the NMFA's statement of revenue and expenditures, Mr. Coalter highlighted that grant revenue has increased from $14.3 million on October 31, 2013 to $25 million on October 31, 2014. Mr. Coalter additionally presented the NMFA's operating budget analysis, which indicates that the NMFA has expended 31.8 percent of its FY 2014 budget through October 31, 2014.

Mr. Coalter provided the committee with a summary of loans made by the NMFA. He identified the five largest loans made by the NMFA for each quarter for the last two fiscal years. In the last quarter, Mr. Coalter said the largest loans were made to the City of Roswell, the Cuba Independent School District, the Carrizozo Municipal School District, the Hatch Valley Public School District and the Portales Municipal School District. Mr. Coalter also provided the committee with information on the NMFA's most recent bond issues, with the last bond issue occurring in August 2014.

Finally, Mr. Coalter reviewed an audit findings status matrix prepared by the NMFA to address findings from previous audits, investigations and reviews of the NMFA. He pointed out that most of the items were completed. However, action items to address timeliness of external audits and system implementation for loan originations are currently in progress.

Committee members asked questions about the timing in which loans are made and bonds are issued. Mr. Coalter stated that loan and bond cycles are not concurrent due to Internal Revenue Service (IRS) requirements. He indicated that bonds are issued for the entire amount of a loan at once. For a bond issuer to avoid an arbitrage rebate, IRS rules require 85 percent of bond proceeds to be spent within three years of a bond issuance and 100 percent of bond proceeds to be spent within five years. In response to a committee member's inquiry, Mr. Coalter indicated that the advantage to issuing bonds for the entire loan amount is that it permits borrowers to immediately know the cost of a loan.

A committee member asked whether the NMFA acts as a fiscal agent for municipalities or school districts, and Mr. Coalter responded that it does not act as a fiscal agent for those entities. Another committee member asked how many public schools have received loans through the NMFA. NMFA staff members indicated that they would research and provide that information to that committee member. A committee member asked about sources of revenue pledged by tribes and schools districts for loan repayment. Mr. Coalter stated that tribes often pledge cigarette tax revenue, gasoline tax revenue, hotel fees and other revenue sources. He added that the NMFA may obtain audit reports to identify revenue sources. He stated that school districts often pledge ad valorem taxes as a source of loan repayment. In response to another question, Mr. Coalter indicated that school districts typically use NMFA loans for capital projects.

A committee member asked about the identification of the proper venue for resolution of disputes between tribes and the NMFA regarding loan agreements. Mr. Coalter responded that appropriate state courts are identified as the stipulated venue in existing agreements.

Committee members next discussed whether entities, such as charter schools and land grants, could obtain loans from the NMFA. The members also expressed differing opinions on whether councils of government could act as fiscal agents for entities such as land grants.

NMFA Proposed Legislation

NMFA staff presented, for the committee's endorsement, a bill to provide a $3 million appropriation from the PPRF to the Local Government Planning Fund for expenditure in FY 2016 and subsequent fiscal years to make grants "to qualified entities to evaluate and estimate the costs of implementing the most feasible alternatives for infrastructure, water or wastewater public projects or to develop water conservation plans, long-term master plans, economic development plans or energy audits and to pay the administrative costs of the local government planning program". Mr. Coalter noted that in 2014, the committee endorsed a $2 million appropriation to the PPRF for the same purpose. Upon a motion made and seconded, the committee endorsed the bill without objection.

NMFA staff also presented, for the committee's endorsement, a bill to authorize the NMFA to make loans for public projects from the PPRF. Upon a motion made and seconded, the committee endorsed the bill without objection.

Next, Ms. Russel presented for endorsement a bill that would authorize the NMFA to make loans or grants from the Water Project Fund for certain specified water projects. NMFA staff presented a list of the proposed projects, with the total cost of the projects approximating $160 million. Committee members asked how the projects would be funded, and Ms. Russell responded that it would depend upon the determination of the Water Trust Board. In response to another question from a committee member, Ms. Russel stated that an entity's chance of receiving funds from the Water Project Fund may increase when the entity obtains funding from a local match or otherwise leverages funding from other sources. In response to a committee member's question, Ms. Russel said that matches from both federal and local sources could be considered. In addition to funding sources, she added that the board also takes human health and safety concerns into account. A committee member suggested that claims of public health concerns should be substantiated through a tested evaluation process.

Some committee members expressed concern that the proposed bill would provide a broad outline of projects that may be funded but would not specify which projects would, in fact, receive funding. Committee members also expressed concern with the current status of a southwest regional water plan.

Some committee members questioned whether the NMFA already has the authority to make loans and grants from the list of qualifying water projects. A committee member asked about the manner in which accountability for expenditures from the Water Project Fund is provided. Ms. Russel indicated that reporting of the manner in which the funds are expended is required pursuant to the Water Project Finance Act.

A committee member asked if a small water system could be eligible for funding from the Water Project Fund if it does not have the resources available to complete an asset management plan. Ms. Russel stated that small water systems are required to begin the asset management process within a three-year period, and assistance in completing that process is offered through local government planning funds. In response to a question from another committee member, Ms. Russel indicated that the NMFA makes available information with respect to pertinent deadlines for an application for funding from the Water Project Fund.

With respect to the bill draft presented for endorsement, Ms. Russel indicated that the projects listed as Items 95 and 96 in Section 1 are duplicate projects, and she requested deletion of Item 96. Representative Gonzales made a motion to endorse the proposed legislation, with the removal of Item 96. Representative Hall seconded the motion, and the committee endorsed the bill, as amended, without opposition.

Michael Zavelle, chief financial strategist, NMFA, and Paul Cassidy, managing director, RBC Capital Markets, presented for the committee's endorsement a bill that would allow public bodies to delegate authority for making certain determinations regarding the sale of public securities. Mr. Zavelle stated that the bill would bring New Mexico's law into conformity with laws in other states. Mr. Cassidy stated that the bill would provide the NMFA and other public bodies with the increased flexibility in the determination of when a bond sale occurs. Mr. Cassidy stated that, often, local governments must set bond sales for dates upon which the appropriate governing board or council meets. He said that those meeting dates are often not the optimal dates to meet when the status of the bond market on those dates is taken into account. Mr. Cassidy indicated that the bill would permit public bodies to permit delegates to determine the optimal time for a bond sale from a market perspective. He added that a public body would still retain its authority to approve bond issuances.

Lou Hoffman, director, Finance and Administrative Services Department, City of Albuquerque, recommended endorsement of the bill. He stated that since public bodies do not currently have the power to delegate certain aspects of bond sale authority, the process of finalizing the necessary documents for bond sales is often rushed. He also indicated that if the necessary closing documents are not signed by the appropriate officials until after a transaction takes place, pursuant to current law, then additional risk is transferred to bondholders, while public bodies are still subject to risk and basis point losses. John McDermott, chair, NMFA board, also encouraged endorsement of the bill. He stated that the bill would assist the NMFA in delivering financing to entities at a lower cost.

Committee members asked about the amounts of money that local governments could save from implementation of the bill. Mr. Hoffman responded that savings could range from hundreds of thousands of dollars to millions of dollars. Another committee member asked if the proposed legislation had been considered before, and Mr. Zavelle indicated that a similar proposal was explored a few years ago.

Committee members discussed whether the bill should include a provision to require reporting of the use of the delegated authority to the committee. Representative Gonzales moved to endorse the bill, as amended by inclusion of the suggested additional language. Representative Powdrell-Culbert seconded the motion. The committee endorsed the bill, as amended, without opposition.

Committee members next discussed the process by which public schools and charter schools receive funding for capital projects. A committee member expressed concern that some entities would seek capital funding from the NMFA, rather than first approaching the Public School Capital Outlay Council. Ms. Russel indicated that the NMFA staff would be willing to ask such entities whether funding has been sought through the council. A committee member requested that charter schools be asked whether they have properly coordinated with the appropriate school districts. A committee member stated that any implications with regard to the *Zuni* lawsuit should be carefully considered.

Friday, November 21

Compliance with Auditor Recommendations

Mr. Coalter and Robert Brannon, interim chief financial officer, NMFA, presented a report on the current status of the NMFA's process in addressing findings from investigations, audits and reviews of the NMFA. They first reported on the status of various changes required pursuant to the passage of Senate Bill 12 (2013) and indicated that each of those changes is complete.

Mr. Coalter and Mr. Brannon also reported on the status of an external audit. They stated that an auditor was selected and a contract has been approved by the State Auditor's Office for its FY 2014 audit. They added that field work is now complete, test work is near completion and financial statements are in progress. An exit conference is scheduled for December 8. They also stated that the NMFA is now current with all federal reporting requirements and bond disclosure statements. According to Mr. Coalter and Mr. Brannon, an internal audit contract was recently signed with McGladrey, and an initial meeting with that auditor was held November 17. Risk assessment field work for that audit is in progress.

Mr. Coalter and Mr. Brannon discussed a number of issues that the NMFA has addressed with respect to compliance with state requirements. They reported that the NMFA has resolved audit findings involving the following:

- payment of funds without an approved audit contract;
- timely cash receipts deposits;
- travel and per diem; and
- inventory of equipment and depreciation schedules requiring updates.

Finally, Mr. Coalter and Mr. Brannon discussed efforts to update the NMFA's accounting practices. They indicated that the NMFA is considering the development of a new system to automate all accounting procedures and expects to enter into a contract for a new system within the next fiscal year.

A committee member asked if the NMFA uses the Statewide Human Resources Accounting and Reporting (SHARE) system. Mr. Coalter indicated that the NMFA uses the SHARE system only for certain limited entries. A committee member asked about the NMFA's plans to hire an internal auditor. Mr. Brannon indicated that an outside firm would be hired to conduct an initial risk assessment and that it might be suggested that an audit correspond with the risk assessment. He stated that no information from the internal auditor will be available until the risk assessment is complete.

Adjournment

There being no further business, the committee adjourned at 9:35 a.m.